

Village of Howard City

Montcalm County, Michigan

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

RECEIVED
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Year Ended February 29, 2004

AUG 31 2004

LOCAL AUDIT 2 7

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> city <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Howard City		County Montcalm
Audit Date February 29, 2004	Opinion Date July 2, 2004	Date Accountant Report Submitted to State: August 29, 2004		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Douglas Wohlberg CPA			
Street Address PO Box 1013	City Byron Center	State MI	ZIP 49315
Accountant Signature <i>Douglas Wohlberg</i>			

Village of Howard City
Montcalm County, Michigan
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Montcalm County, Michigan

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DOUGLAS WOHLBERG

Certified Public Accountant

To the Village Council
Village of Howard City
Montcalm County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Village of Howard City as of and for the year ended February 29, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Howard City management. Our responsibility is to express opinions on these financial statements based on our audit.

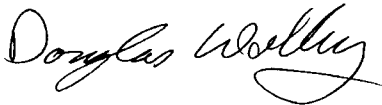
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Howard City as of February 29, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of February 29, 2004.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Howard City basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Byron Center, Michigan
July 2, 2004

VILLAGE OF HOWARD CITY

MANAGEMENT'S DISCUSSION AND ANALYSIS as of February 29, 2004

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's combined net assets decreased 1% from a year ago, decreasing from \$2,187,760 to \$2,164,350. This results from minimizing expenditures in the General Fund.

In a condensed format, the table below shows the net assets as of the February 29, 2004:

	Governmental Activities
	2004
Current assets	\$ 471,010
Noncurrent assets	2,724,077
Total assets	3,195,087
Long-term debt outstanding	959,662
Other liabilities	71,072
Total liabilities	1,030,734
Net assets	
Invested in capital assets - net of debt	2,724,077
Unrestricted	(559,727)
Total net assets	\$ 2,164,350

Unrestricted net assets, the part of net assets that can be used to finance day to day operations, increased by \$28,898 for the governmental activities. This represents an increase approximately 5%. The current level of unrestricted net assets for our governmental activities stands at \$(559,727), or about 2% of expenditures. This is within the targeted range set by the Village Council during its last budget process.

The following table shows the changes of the net assets as of February 29, 2004:

	2004
<u>Program revenues</u>	
Charges for services	\$ 479,721
Operating grants and contributions	414,789
<u>General Revenue</u>	
Property tax	232,991
State shared revenue	146,407
Unrestricted investment income	1,834
Miscellaneous	24,367
Total Revenues	1,300,109
<u>Program expenses</u>	
General government	373,631
Public safety	258,347
Public works	318,809
Recreation and culture	20,360
Sewer Fund	188,541
Water Fund	131,315
Interest on long-term debt	32,516
Total expenses	1,323,519
Change in net assets	\$ (23,410)

Governmental Activities

There was no significant change in governmental activities from the previous year. The Village purchased a backhoe for the Department of Public Works and financed it through an installment purchase agreement.

The Village's Funds

Our analysis of the Village's major funds begins on page 12, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2004 were the General Fund and the Renaissance Zone Construction Fund.

Capital Asset and Debt Administration

At the end of 2004, the Village had \$1,568,673, net of accumulated depreciation, invested in a broad range of capital assets, including buildings, police equipment and water and sewer lines. In addition, the Village has invested significantly in roads within the Village.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2005 remains little changed from its 2004 because the Village expects to primarily repay long-term debt and make no additions to its capital assets.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's Manager at the Howard City Village Hall, 125 Shaw Street, Howard City, Michigan, 49329. The Village's phone number is (269) 937-4311.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Village of Howard City
Montcalm County, Michigan
Statement of Net Assets
For the year ended February 29, 2004

	Governmental activities	Business type activities	Total	Component unit
ASSETS				
Cash and cash equivalents	\$ 239,576	\$ 193,170	\$ 432,746	\$ 43,931
Receivables (net)	-	38,261	38,261	-
Internal balances	462	(462)	-	-
Capital assets (net)	339,230	2,384,847	2,724,077	-
TOTAL ASSETS	\$ 579,268	\$ 2,615,816	\$ 3,195,084	\$ 43,931
LIABILITIES				
Accounts payable	\$ -	\$ 6,426	\$ 6,426	\$ -
Accrued and other liabilities	13,529	17,051	30,580	-
Deferred revenue	34,066	-	34,066	-
Due within one year	36,297	-	36,297	-
Due in more than one year	154,365	769,000	923,365	-
TOTAL LIABILITIES	238,257	792,477	1,030,734	-
NET ASSETS				
Invested in capital assets	339,230	2,384,847	2,724,077	-
Unrestricted	1,781	(561,508)	(559,727)	43,931
TOTAL NET ASSETS	341,011	1,823,339	2,164,350	43,931
TOTAL LIABILITIES AND NET ASSETS	\$ 579,268	\$ 2,615,816	\$ 3,195,084	\$ 43,931

The Notes to the Financial Statements are an intergral part of this statement.

Village of Howard City
Montcalm County, Michigan
Statement of Activities
For the year ended February 29, 2004

Functions/Programs	Expenses	Charges for services	Operating grants and contributions
<u>PRIMARY GOVERNMENT EXPENSES</u>			
General government	\$ 373,631	\$ 2,453	\$ 256,224
Public safety	258,347	97,806	2,131
Public works	318,809	90,243	156,434
Recreation and culture	20,360	4,850	-
Interest on long-term debt	32,516	-	-
Total Governmental activities	1,003,663	195,352	414,789
<u>BUSINESS TYPE EXPENSES</u>			
Sewer	188,541	160,712	-
Water	131,315	123,657	-
Total Business type activities	319,856	284,369	-
Total Primary government	1,323,519	479,721	414,789
<u>COMPONENT UNIT EXPENSES</u>			
Downtown Development Authority	\$ 1,445	\$ -	\$ -
<u>General Revenues</u>			
Property taxes			
State-shared revenue			
Unrestricted investment income			
Miscellaneous			
Transfers			
Total general revenues - special items and transfers			
<u>Change in net assets</u>			
Net assets at beginning of year			
Net assets at end of year			

The Notes to the Financial Statements are an integral part of this statement.

Governmental activities	Business-type activities	Total	Component unit
\$ (114,954)	\$	\$ (114,954)	\$
(158,410)		(158,410)	
(72,132)		(72,132)	
(15,510)		(15,510)	
(32,516)		(32,516)	
(393,522)		(393,522)	
	(27,829)	(27,829)	
	(7,658)	(7,658)	
	(35,487)	(35,487)	
(393,522)	(35,487)	(429,009)	
		\$	(1,445)
232,991	-	232,991	18,433
146,407	-	146,407	-
855	979	1,834	148
24,367	-	24,367	100
2,400	(2,400)	-	-
407,020	(1,421)	405,599	18,681
13,498	(36,908)	(23,410)	17,236
327,513	1,860,247	2,187,760	26,695
\$ 341,011	\$ 1,823,339	\$ 2,164,350	\$ 43,931

The Notes to the Financial Statements are an integral part of this statement.

Village of Howard City
Montcalm County, Michigan
Governmental Funds
Balance Sheet
February 29, 2004

	General Fund		Nonmajor Funds		Total
<u>ASSETS</u>					
Cash	\$	110,858	\$	78,187	\$ 189,233
Due from other funds		2,234		2,744	9,878
TOTAL ASSETS	\$	113,092	\$	80,931	\$ 199,111
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Due to other funds	\$	4,915	\$	11,346	\$ 21,239
Accrued wages payable		7,440		-	7,440
Deferred revenue		34,066		-	34,066
TOTAL LIABILITIES		46,421		11,346	62,745
<u>FUND BALANCES</u>					
Reserved for					
Debt service	-		9,334		9,334
Streets	-		22,134		22,134
Construction	-		-		110
Unreserved		66,671		38,117	104,788
TOTAL FUND BALANCES		66,671		69,585	136,366
TOTAL LIABILITIES AND FUND BALANCES	\$	113,092	\$	80,931	\$ 199,111

The Notes to the Financial Statements are an integral part of this statement.

Village of Howard City

Montcalm County, Michigan

Reconciliation of Fund Balance of Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets

For the year ended February 29, 2004

Total fund balances - total governmental funds		\$	136,366
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:			
Capital assets at cost			431,206
Accumulated depreciation			(203,044)
Net capital assets			228,162
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Balances at February 29, 2004 were:			
Bonds payable			(54,000)
Installment purchase contracts payable			(79,128)
Internal service funds are used by management to charge the costs of equipment rental activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets			109,611
Net assets of governmental activities		\$	341,011

The Notes to the Financial Statements are an integral part of this statement.

Village of Howard City

Montcalm County, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

For the year ended February 29, 2004

	General Fund	Renaissance Grant Construction Fund		Nonmajor Funds	Total
REVENUE					
Taxes and penalties	\$ 176,767	\$ -	\$ -	\$ 61,201	\$ 237,968
Licenses and permits	810	-	-	-	810
Federal grants	-	256,224	-	-	256,224
State grants	148,538	-	-	156,434	304,972
Charges for services	97,833	-	-	-	97,833
Fines and forfeits	2,605	-	-	-	2,605
Interest and rentals	2,786	-	-	262	3,048
Other revenue	13,701	-	-	-	13,701
TOTAL REVENUE	443,040	256,224	-	217,897	917,161
EXPENDITURES					
General government	91,244	-	-	774	92,018
Public safety	244,154	-	-	-	244,154
Public works	26,024	-	-	197,183	223,207
Recreation and culture	20,360	-	-	-	20,360
Other	39,735	-	-	-	39,735
Debt service	-	-	-	31,035	31,035
Capital outlay	-	256,116	-	26,368	282,484
TOTAL EXPENDITURES	421,517	256,116	-	255,360	932,993
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	21,523	108	-	(37,463)	(15,832)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	70,633	70,633
Transfers out	(29,000)	-	-	(33,233)	(62,233)
TOTAL OTHER FINANCING SOURCES (USES)	(29,000)	-	-	37,400	8,400
NET CHANGE IN FUND BALANCES	(7,477)	108	-	(63)	(7,432)
FUND BALANCES, BEGINNING OF YEAR	74,148	2	-	69,648	143,798
FUND BALANCES, END OF YEAR	\$ 66,671	\$ 110	\$ -	\$ 69,585	\$ 136,366

The Notes to the Financial Statements are an integral part of this statement.

Village of Howard City

Montcalm County, Michigan

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the year ended February 29, 2004

Net change in fund balances - total governmental funds	\$	(7,432)
Amounts reported for governmental activities in the statement of activities are different because:		
An internal service fund is used by management to charge the cost of certain equipment to individual funds		(5,483)
Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		43,606
Some expense reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Depreciation		(17,193)
Change in net assets of government activities	\$	13,498

The Notes to the Financial Statements are an intergral part of this statement.

Village of Howard City
Montcalm County, Michigan
Proprietary Funds
Statement of Net Assets
February 29, 2004

	Sewer Fund	Water Fund	Total	Governmental activities - Internal Service Fund
ASSETS				
Current assets				
Cash	\$ 26,183	\$ 47,139	\$ 73,322	\$ 50,344
Accounts receivable	22,219	16,042	38,261	-
Due from other funds	-	-	-	11,822
Total current assets	48,402	63,181	111,583	62,166
Noncurrent assets				
Restricted cash	98,907	20,941	119,848	-
Capital assets	1,834,920	549,928	2,384,848	111,068
Total Noncurrent assets	1,933,827	570,869	2,504,696	111,068
TOTAL ASSETS	\$ 1,982,229	\$ 634,050	\$ 2,616,279	\$ 173,234
LIABILITIES				
Current liabilities				
Accounts payable	\$ -	\$ 6,426	\$ 6,426	\$ -
Payroll deductions payable	-	-	-	6,089
Due to other funds	132	330	462	-
Accrued interest payable	10,429	379	10,808	-
Customers deposits payable	58	6,185	6,243	-
Total current liabilities	10,619	13,320	23,939	6,089
Long-term debt				
Bonds payable	681,500	87,500	769,000	-
Notes payable	-	-	-	57,534
Total noncurrent liabilities	681,500	87,500	769,000	57,534
TOTAL LIABILITIES	692,119	100,820	792,939	63,623
NET ASSETS				
Invested in capital assets - net of related debt	1,834,920	549,928	2,384,848	111,068
Undesignated	(544,810)	(16,698)	(561,508)	(1,457)
TOTAL NET ASSETS	1,290,110	533,230	1,823,340	109,611
TOTAL LIABILITIES AND NET ASSETS	\$ 1,982,229	\$ 634,050	\$ 2,616,279	\$ 173,234

The Notes to the Financial Statements are an integral part of this statement.

Village of Howard City

Montcalm County, Michigan

Proprietary Funds

Statement of Revenue, Expenses and Changes in Net Assets

For the year ended February 29, 2004

	Sewer Fund	Water Fund	Total	Governmental activities - Internal Service Fund
OPERATING REVENUE				
Sales	\$ 160,712	\$ 123,657	\$ 284,369	\$ 90,243
TOTAL OPERATING REVENUE	160,712	123,657	284,369	90,243
OPERATING EXPENSES				
Personal services	38,170	54,475	92,645	24,054
Contractual services	11,198	20,202	31,400	18,818
Utilities	22,127	9,768	31,895	9,192
Repairs and maintenance	6,471	1,870	8,341	7,671
Rent	5,202	10,150	15,352	-
Other	1,013	13,419	14,432	2,551
Depreciation	71,916	16,471	88,387	33,317
TOTAL OPERATING EXPENSES	156,097	126,355	282,452	95,603
OPERATING INCOME (LOSS)	4,615	(2,698)	1,917	(5,360)
NONOPERATING REVENUE (EXPENSES)				
Interest and dividends	629	350	979	207
Interest expense	(32,443)	(4,961)	(37,404)	(1,481)
Transfers out	(1,200)	(1,200)	(2,400)	(6,000)
Gain on sale of depreciable assets	-	-	-	7,150
TOTAL NONOPERATING REVENUES (EXPENSE)	(33,014)	(5,811)	(38,825)	(124)
Income (loss) before contributions and transfers	(28,399)	(8,509)	(36,908)	(5,484)
CHANGE IN NET ASSETS	(28,399)	(8,509)	(36,908)	(5,484)
NET ASSETS, BEGINNING OF YEAR	1,318,509	541,739	1,860,248	115,095
NET ASSETS, END OF YEAR	\$ 1,290,110	\$ 533,230	\$ 1,823,340	\$ 109,611

The Notes to the Financial Statements are an integral part of this statement.

Village of Howard City
Montcalm County, Michigan
Proprietary Funds
Statement of Cash Flows
For the year ended February 29, 2004

	Sewer Fund	Water Fund	Total	Governmental activities - Internal Service Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Receipts from customers	\$ 156,718	\$ 127,668	\$ 284,386	\$ 91,042
Payments to suppliers	(46,137)	(49,015)	(95,152)	(38,232)
Payments to employees	(38,170)	(54,475)	(92,645)	(24,846)
Net cash provided (used) by operating activities	72,411	24,178	96,589	27,964
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Operating subsidies and transfers to other funds	(1,200)	(1,200)	(2,400)	(6,000)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Proceeds from capital debt	-	-	-	67,100
Purchase of capital assets	-	-	-	(85,886)
Principal and interest paid on capital debt	(68,232)	(12,405)	(80,637)	(11,047)
Net cash provided (used) by capital and related financing activities	(68,232)	(12,405)	(80,637)	(29,833)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest and dividends	629	350	979	207
Sale of assets	-	-	-	7,150
Net cash provided by investing activities	629	350	979	7,357
Net increase (decrease) in cash and cash equivalents	3,608	10,923	14,531	(512)
Balances - beginning of year	121,484	57,154	178,638	50,856
Balances - end of year	\$ 125,092	\$ 68,077	\$ 193,169	\$ 50,344
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	\$ 4,615	\$ (2,698)	\$ 1,917	\$ (5,360)
Provided (used) by operating activities				
Depreciation expense	71,916	16,471	88,387	33,317
Receivables - net	(4,052)	(2,174)	(6,226)	799
Accounts and other payables	(126)	6,394	6,268	(792)
Customer deposits	58	6,185	6,243	-
Net cash provided by operating activities	\$ 72,411	\$ 24,178	\$ 96,589	\$ 27,964

The Notes to the Financial Statements are an integral part of this statement.

Village of Howard City

Montcalm County, Michigan

Fiduciary Funds

Statement of Net Assets

For the year ended February 29, 2004

		Agency Fund Type
Cash	\$	665
Payroll withholdings payable	\$	665

The Notes to the Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Village of Howard City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Village of Howard City:

A. Reporting Entity

The Village of Howard City was incorporated under the provisions of Act 8, P.A. 1895 as amended as a General Law Village. The Village operates under a President-Council form of government and provides the following services as authorized by its charter: public safety, public works, culture and recreation, public improvement, and general administration services.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Village of Howard City's property tax is levied on each December 1 on the taxable valuation of property (as defined by State statutes) located in Village of Howard City as of the preceding December 31st.

Although Village of Howard City's 2003 ad valorem tax is levied and collectible on December 1, 2003, it is Village of Howard City's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2003 taxable valuation of Village of Howard City totaled \$19,674,687, on which ad valorem taxes levied consisted of the following:

	Mills levied		Raising	
Operating	\$	9.1502	\$	180,027
Highway		3.2599		64,138

These amounts are recognized in the General Fund financial statements as taxes receivable-current.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Renaissance Grant Fund accounts for Federal and other funding for construction of infrastructure assets within the Village.

The government reports the following major proprietary funds:

The Water Fund and the Sewer Fund account for the activities of the water distribution system and sewage collection system.

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments--Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables--In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories and Prepaid Items--Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets--Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Vehicles	3 to 5 years
Office equipment	5 to 7 years
Computer equipment	3 to 7 years

Compensated Absences (Vacation and Sick Leave)--It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All unused vacation and sick pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements.

Long-Term Obligations--In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity--In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications--Comparative total data for the prior year have been presented only for individual governmental funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 2-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information--Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Village normally follows these procedures in establishing the budgetary data reflected in the financial statements:

The Village Administration submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1.

The operating budget includes proposed expenditures and the means of financing them.

A public hearing is conducted at the Village hall to obtain taxpayer comments.

The budget is legally adopted by ordinance before March 1.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Village Council throughout the operating year.

The Village adopts budgets for the General Fund and the Special Revenue Funds.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved as amended by the Village Council.

The legal level of control is at the activity level of the General Fund, and at the fund expenditure totals for the and Special Revenue funds.

The Village Manager is authorized to transfer budgeted amounts between accounts within the same department. Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the Village Council.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Village of Howard City

Montcalm County, Michigan

Notes to Basic Financial Statements

For the year ended February 29, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes Village of Howard City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village of Howard City Board has designated two banks for the deposit of Local Unit funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Village of Howard City's deposits and investment policy are in accordance with statutory authority.

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental activities	Business-Type activities	Total Primary Government	Component Units
Cash and cash equivalents	\$ 239,577	\$ 193,172	\$ 432,749	\$ 43,931

The bank balance of the Village's deposits is \$489,606, of which \$228,626 is covered by federal depository insurance and \$260,980 is uninsured and uncollateralized.

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

Governmental Activities	Balance March 1, 2003	Additions	Disposals	Balance February 29, 2004
Capital assets being depreciated:				
Buildings	\$ 120,000	\$	\$	120,000
Equipment	311,206			311,206
Subtotal	431,206			431,206
Accumulated depreciation:				
Buildings	21,000	3,000		24,000
Equipment	164,851	14,193		179,044
Subtotal	185,851	17,193		203,044
Net capital assets being depreciated	245,355	(17,193)		228,162
Net capital assets	\$ 245,355	\$ (17,193)	\$	\$ 228,162

Business-Type Activities	Balance January 1, 2004	Additions	Disposals	Balance February 29, 2004
Assets not being depreciated	\$ 34,300	\$	\$	\$ 34,300
Capital assets being depreciated:				
Buildings and improvements	\$ 3,592,428	\$	\$	3,592,428
Machinery and equipment	14,412			14,412
Subtotal	3,606,840			3,606,840
Accumulated depreciation:				
Buildings and improvements	1,154,498	88,220		1,242,718
Machinery and equipment	13,408	167		13,575
Subtotal	1,167,906	88,387		1,256,293
Net capital assets being depreciated	2,438,934	(88,387)		2,350,547
Net capital assets	\$ 2,473,234	\$ (88,387)	\$	\$ 2,384,847

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 4 - CAPITAL ASSETS (continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$	3,000
Public safety		14,193
Total governmental activities	\$	17,193

Business-Type activities:

Sewer	\$	71,916
Water		16,471
Total Business-Type activities	\$	88,387

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of the interfund balances as of February 29, 2004, is as follows:

Receivable fund	Payable fund	Amount
General Fund	Renaissance Zone Grant Fund	2,234
Revolving Fund	Renaissance Zone Grant Fund	2,744
Renaissance Zone Grant Fund	General Fund	4,900
Equipment Fund	General Fund	15
	Major Streets Fund	6,155
	Local Streets Fund	5,191
	Sewer Fund	132
	Water Fund	330
		21,701

Interfund Transfers

Transfers In	Transfers Out							Total
	General Fund	Major Streets Fund	Street Bond Fund	Locally Raised Street Fund	Sewer Fund	Water Fund	Equipment Fund	
Revolving Fund	\$ 29,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,000
Street Bond Fund	-	7,368	-	-	-	-	-	7,368
Local Streets Fund	-	13,600	7,365	3,400	-	-	-	24,365
Major Streets	-	-	-	1,500	-	-	-	1,500
	-	-	-	-	1,200	-	-	1,200
	-	-	-	-	-	1,200	-	1,200
	-	-	-	-	-	-	6,000	6,000
Total	\$ 29,000	\$ 20,968	\$ 7,365	\$ 4,900	\$ 1,200	\$ 1,200	\$ 6,000	\$ 70,633

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 6 - LONG-TERM DEBT

Bond and contractual obligation activity can be summarized as follows:

	Balance March 1, 2003	Additions	Reductions	Balance February 29, 2004	Due within one year
Governmental activities					
General obligation bonds					
1997 Michigan Transportation Bonds	\$ 66,000	\$ -	\$ 12,000	\$ 54,000	\$ 12,000
Installment purchase agreements					
Municipal building purchase contract	20,600	-	20,600	-	-
Fire truck purchase contract	90,134	-	11,006	79,128	11,578
Total Governmental activities	176,734	-	43,606	133,128	23,578
Internal service fund					
Backhoe installment purchase contract	-	67,100	9,566	57,534	12,719
Business type activities					
Revenue bonds					
1996 Sewer Bonds	84,000	-	21,000	63,000	21,000
1984 Sewer bonds	538,000	-	7,000	531,000	8,000
1997 Water and Sewer bonds	190,000	-	15,000	175,000	25,000
Total Business type activities	\$ 812,000	\$ -	\$ 43,000	\$ 769,000	\$ 54,000

The Village recently completed a construction project funded by the Community Development Block Grant Program. The Village received a loan through CDBG in the amount of \$1,464,541 to fund the project. The terms of the loan reduce the loan balance for every job created as a result of the project. The determination of the final amount to be repaid will be made prior to September of 2005 when the Village is to begin repaying the loan.

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 6 - LONG-TERM DEBT (continued)

Annual debt service requirements to maturity for the above obligation follows:

December 31,	Bonds Payable		Total
	Principal	Interest	
2005	\$ 90,297	\$ 43,547	\$ 133,844
2006	97,350	39,106	136,456
2007	99,451	34,464	133,915
2008	81,600	29,680	111,280
2009	57,054	26,169	83,223
2010	54,910	23,349	78,259
2011	10,000	21,330	31,330
2012	11,000	20,858	31,858
2013	11,000	20,362	31,362
2014	12,000	19,845	31,845
2015	12,000	19,305	31,305
2016	13,000	18,742	31,742
2017	14,000	18,135	32,135
2018	14,000	17,505	31,505
2019	15,000	16,853	31,853
2020	16,000	16,155	32,155
2021	16,000	15,435	31,435
2022	18,000	14,670	32,670
2023	18,000	13,860	31,860
2024	19,000	13,028	32,028
2025	20,000	12,150	32,150
2026	21,000	11,227	32,227
2027	22,000	10,260	32,260
2028	23,000	9,248	32,248
2029	25,000	8,167	33,167
2030	25,000	7,042	32,042
2031	27,000	5,873	32,873
2032	28,000	4,635	32,635
2033	30,000	3,330	33,330
2034	31,000	1,958	32,958
2035	28,000	630	28,630
Totals	\$ 959,662	\$ 516,918	\$ 1,476,580

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 7 - SEGMENT INFORMATION

The Village operates two funds which provide sewage and water services. Summary financial information for the sewer department is presented below:

Condensed Statement of Net Assets

	<u>Sewer Fund</u>	<u>Water Fund</u>
Assets		
Current assets	\$ 48,402	\$ 63,181
Restricted assets	98,907	20,941
Capital assets	1,834,920	549,928
Total Assets	1,982,229	634,050
Liabilities		
Current liabilities	10,619	13,320
Noncurrent liabilities	681,500	87,500
Total Liabilities	692,119	100,820
Net Assets		
Invested in capital assets	1,834,920	549,928
Unrestricted	(544,810)	(16,698)
Total Net Assets	\$ 1,290,110	\$ 533,230

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 7 - SEGMENT INFORMATION (continued)

Condensed Statement of Revenue, Expenses, and Changes in Net Assets

	Sewer Fund	Water Fund
Sewer Charges	\$ 160,712	\$ 123,657
Depreciation	71,916	16,471
Other operating expenses	84,181	109,884
Operating income	4,615	(2,698)
Nonoperating revenue (expense)		
Investment earnings	629	350
Interest expense	(32,443)	(4,961)
Transfers out	(1,200)	(1,200)
Changes in net assets	(28,399)	(8,509)
Beginning net assets	1,318,511	541,739
Ending net assets	\$ 1,290,112	\$ 533,230

Condensed Statement of Cash Flows

	Sewer Fund	Water Fund
Net cash provided by (used in)		
Operating activities	\$ 72,411	\$ 24,178
Noncapital financing activities	(1,200)	(1,200)
Capital and related financing activities	(68,232)	(12,405)
Investing activities	629	350
Net increase (decrease) in cash	3,608	10,923
Beginning cash and cash equivalents	121,484	57,154
Ending cash and cash equivalents	\$ 125,092	\$ 68,077

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 8 - RESTRICTED ASSETS

The balances of the restricted asset accounts in the enterprise funds are as follows:

Revenue bond restrictions	\$	119,848
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NOTE 9 - RISK MANAGEMENT

Village of Howard City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village of Howard City obtains commercial insurance coverage through the Michigan Municipal League for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS

The Village has no post-retirement benefit plans at this time other than its pension plan.

Village of Howard City
Montcalm County, Michigan
Notes to Basic Financial Statements
For the year ended February 29, 2004

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan

Plan Description--Village of Howard City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of Village of Howard City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy--The obligation to contribute to and maintain the system for these employees requires a contribution of 2.5 percent from all employees.

Annual Pension Costs --For year ended 2002, the Village of Howard City's annual pension cost of \$27,198 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal method. Significant actuarial assumptions used include: (i) an 8.00 percent investment rate of return; (ii) projected salary increases of 4.50 percent per year; and (iii) 0.00 percent per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2002 follows:

	2002	2001	2000
Annual pension cost	\$ 32,088	\$ 23,184	\$ 16,343
Percentage of APC Contributed	100 %	100 %	100 %
Actuarial value of assets	\$ 692,220	\$ 705,591	\$ 639,433
Actuarial accrued liability	\$ 888,476	\$ 837,725	\$ 697,592
Unfunded AAL	\$ 196,256	\$ 132,134	\$ 58,159
Funded ratio	77.91 %	84.23 %	91.66 %
Covered payroll	\$ 288,835	\$ 237,288	\$ 241,652
UAAL as a percentage of covered payroll	67.95 %	55.69 %	24.07 %

Combining and Individual Fund Statements and Schedules

Village of Howard City
Montcalm County, Michigan
General Fund
Balance Sheet
February 29, 2004

	2004		2003	
ASSETS				
Cash	\$	110,858	\$	81,903
Due from other funds		2,234		-
TOTAL ASSETS	\$	113,092	\$	81,903
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Due to other funds	\$	4,915	\$	15
Accrued wages payable		7,440		7,740
Deferred revenue		34,066		-
TOTAL LIABILITIES		46,421		7,755
FUND BALANCES				
Fund balance		66,671		74,148
TOTAL LIABILITIES AND FUND BALANCES	\$	113,092	\$	81,903

Village of Howard City
Montcalm County, Michigan
General Fund

Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended February 29, 2004 with comparative actual amounts for 2003

	Original budget	Final budget	Actual	Variance with final budget	2003
REVENUE					
Taxes	\$ 179,650	\$ 179,650	\$ 174,287	\$ (5,363)	\$ 160,625
Penalties and interest on taxes	50	50	27	(23)	35
Property tax administration fee	2,260	2,260	2,453	193	2,261
Non-business licenses and permits	1,000	1,000	810	(190)	930
Federal grants	-	-	-	-	39,232
State revenue sharing	157,000	157,000	146,407	(10,593)	159,722
Other state grants	2,180	2,180	2,131	(49)	1,697
Services rendered	85,000	85,000	96,288	11,288	80,625
Sales	1,500	1,500	1,545	45	1,778
Fines and forfeitures	5,500	5,500	2,605	(2,895)	3,983
Interest and dividends	200	200	386	186	665
Rent	4,900	4,900	2,400	(2,500)	4,800
Contributions and donations	5,000	5,000	4,850	(150)	5,446
Reimbursements	2,872	2,872	2,170	(702)	2,872
Other	7,000	7,000	6,681	(319)	5,069
Sale of fixed assets	-	-	-	-	46,124
TOTAL REVENUE	454,112	454,112	443,040	(11,072)	515,864
EXPENDITURES					
General government					
Village Council	31,113	31,113	8,562	22,551	8,445
Manager	55,399	55,399	46,116	9,283	90,704
Audit	900	900	900	-	800
Buildings and grounds	30,150	30,150	26,446	3,704	26,834
Attorney	12,000	12,000	9,220	2,780	-
Total General government	129,562	129,562	91,244	38,318	126,783
Public safety					
Police	189,787	189,787	186,990	2,797	169,097
Fire department	71,988	71,988	57,164	14,824	94,349
Total Public safety	261,775	261,775	244,154	17,621	263,446

Village of Howard City**Montcalm County, Michigan****General Fund****Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual****February 29, 2004**

	Original budget	Final budget	Actual	Variance with final budget	2003
Department of public works					
Department of public works					
Sanitation	\$ 19,314	\$ 19,314	\$ 24,464	\$ (5,150)	\$ 20,785
	5,000	5,000	1,560	3,440	6,138
Total Department of public works	24,314	24,314	26,024	(1,710)	26,923
Recreation and culture					
Parks and recreation	20,216	20,216	20,360	(144)	14,431
Total Recreation and culture	20,216	20,216	20,360	(144)	14,431
Other governmental functions					
Insurance	33,000	33,000	39,735	(6,735)	-
Total Other governmental functions	33,000	33,000	39,735	(6,735)	-
TOTAL EXPENDITURES	468,867	468,867	421,517	47,350	431,583
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(14,755)	(14,755)	21,523	(58,422)	84,281
OTHER FINANCING SOURCES (USES)					
Transfers out	(29,000)	(29,000)	(29,000)	-	(48,107)
NET CHANGE IN FUND BALANCES	(43,755)	(43,755)	(7,477)	(87,422)	36,174
Fund balance at beginning of year	74,148	74,148	74,148	-	37,974
Fund balance at end of year	\$ 30,393	\$ 30,393	\$ 66,671	\$ (87,422)	\$ 74,148

Village of Howard City
Montcalm County, Michigan
Renaissance Grant Fund
Balance Sheet
February 29, 2004

	2004	2003
ASSETS		
Cash	\$ 188	\$ 2
Due from other funds	4,900	-
TOTAL ASSETS	\$ 5,088	\$ 2
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Due to other funds	\$ 4,978	\$ -
FUND BALANCES		
Fund balance	\$ 110	2
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,088	\$ 2

Village of Howard City

Montcalm County, Michigan

Renaissance Grant Fund

Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual

For the year ended February 29, 2004 with comparative actual amounts for 2003

	2004	2003
REVENUE		
Federal grants	\$ 256,224	\$ 10,000
TOTAL REVENUE	256,224	10,000
EXPENDITURES		
Capital outlay	256,116	12,323
TOTAL EXPENDITURES	256,116	12,323
NET CHANGE IN FUND BALANCES	108	(2,323)
Fund balance beginning of year	2	2,325
Fund balance end of year	\$ 110	\$ 2

Nonmajor Governmental Funds

Village of Howard City
Montcalm County, Michigan
Nonmajor Funds
Combining Balance Sheet
February 29, 2004

	Special Revenue Fund			Debt Service Fund
	Major Streets Fund	Local Streets Fund	Locally Raised Streets Fund	Street Bond Fund
ASSETS				
Cash	\$ 11,979	\$ 9,272	\$ 12,229	\$ 9,334
Due from other funds	-	-	-	-
TOTAL ASSETS	\$ 11,979	\$ 9,272	\$ 12,229	\$ 9,334
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to other funds	\$ 6,155	\$ 5,191	\$ -	\$ -
TOTAL LIABILITIES	6,155	5,191	-	-
FUND BALANCES				
Reserved for				
Debt Service	-	-	-	9,334
Reserved for streets	5,824	4,081	12,229	-
Unreserved	-	-	-	-
TOTAL FUND BALANCES	5,824	4,081	12,229	9,334
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,979	\$ 9,272	\$ 12,229	\$ 9,334

**Capital Projects
Fund**

<u>Revolving Fund</u>		<u>Total</u>
\$	35,373	\$ 78,187
	2,744	2,744
\$	38,117	\$ 80,931

\$	-	\$ 11,346
	-	11,346

	-	9,334
	-	22,134
	38,117	38,117
	38,117	69,585

\$	38,117	\$ 80,931
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Village of Howard City

Montcalm County, Michigan

Nonmajor Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

February 29, 2004

	Special Revenue Fund			Debt Service Fund
	Major Streets Fund	Local Streets Fund	Locally Raised Streets Fund	Street Bond Fund
REVENUE				
Taxes	\$ -	\$ -	\$ 61,201	\$ -
Michigan transportation fund	110,146	44,684	-	-
Metro Act	-	1,604	-	-
Interest and dividends	32	11	82	37
TOTAL REVENUE	110,178	46,299	61,283	37
EXPENDITURES				
General	-	-	-	-
Public works	91,831	52,025	53,327	-
Debt service	-	-	-	15,351
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	91,831	52,025	53,327	15,351
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	18,347	(5,726)	7,956	(15,314)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,500	17,000	-	14,733
Transfers out	(20,968)	(7,365)	(4,900)	-
TOTAL OTHER FINANCING SOURCES (USES)	(19,468)	9,635	(4,900)	14,733
NET CHANGE IN FUND BALANCES	(1,121)	3,909	3,056	(581)
FUND BALANCES, BEGINNING OF YEAR	6,945	172	9,173	9,915
FUND BALANCES, END OF YEAR	\$ 5,824	\$ 4,081	\$ 12,229	\$ 9,334

**Capital Projects
Fund**

<u>Revolving Fund</u>		<u>Total</u>
\$	-	\$ 61,201
	-	154,830
	-	1,604
	100	262
	100	217,897
<hr/>		
	774	774
	-	197,183
	15,684	31,035
	26,368	26,368
	42,826	255,360
<hr/>		
	(42,726)	(37,463)
<hr/>		
	37,400	70,633
	-	(33,233)
	37,400	37,400
<hr/>		
	(5,326)	(63)
<hr/>		
	43,443	69,648
<hr/>		
\$	38,117	\$ 69,585
<hr/>		

Village of Howard City
Montcalm County, Michigan
Major Street Fund
Balance Sheet
February 29, 2004

	2003	2003
ASSETS		
Cash	\$ 11,979	\$ 13,951
TOTAL ASSETS	\$ 11,979	\$ 13,951
LIABILITIES AND FUND BALANCES		
Due to other funds	\$ 6,155	\$ 7,006
TOTAL LIABILITIES	6,155	7,006
FUND BALANCES		
Reserved	5,824	6,945
TOTAL FUND BALANCES	5,824	6,945
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,979	\$ 13,951

Village of Howard City**Montcalm County, Michigan****Major Street Fund****Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual****February 29, 2004**

	Original budget	Original and final budget	Actual	Variance with final budget	Prior year
<u>REVENUE</u>					
Michigan transportation fund	\$ 104,000	\$ 104,000	\$ 110,146	\$ (6,146)	\$ 106,740
Interest and dividends	150	150	32	118	1,645
TOTAL REVENUE	104,150	104,150	110,178	(6,028)	108,385
<u>EXPENDITURES</u>					
Street construction	-	-	1,686	(1,686)	5,902
Bridge construction	-	-	-	-	1,752
Street preservation	51,766	51,766	50,379	1,387	54,308
Traffic services	1,500	1,500	4,227	(2,727)	3,421
Winter maintenance	23,000	23,000	24,246	(1,246)	21,184
Administration and engineering	7,850	7,850	10,993	(3,143)	10,824
Miscellaneous	-	-	300	(300)	-
TOTAL EXPENDITURES	84,116	84,116	91,831	(7,715)	97,391
<u>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</u>					
	20,034	20,034	18,347	1,687	10,994
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	-	-	1,500	(1,500)	-
Transfers out	(22,368)	(22,368)	(20,968)	1,400	(22,365)
TOTAL OTHER FINANCING SOURCES (USES)	(22,368)	(22,368)	(19,468)	(100)	(22,365)
NET CHANGE IN FUND BALANCES	(2,334)	(2,334)	(1,121)	(17,781)	(11,371)
Fund balance	6,945	6,945	6,945	-	18,316
Fund balance at end of year	\$ 4,611	\$ 4,611	\$ 5,824	\$ (17,781)	\$ 6,945

Village of Howard City
Montcalm County, Michigan
Local Street Fund
Balance Sheet
February 29, 2004

	2004	2003
<u>ASSETS</u>		
Cash	\$ 9,272	\$ 5,153
TOTAL ASSETS	\$ 9,272	\$ 5,153
<u>LIABILITIES AND FUND BALANCES</u>		
<u>LIABILITIES</u>		
Due to other funds	\$ 5,191	\$ 4,981
<u>FUND BALANCES</u>		
Fund balance	4,081	172
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,272	\$ 5,153

Village of Howard City**Montcalm County, Michigan****Local Street Fund****Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual****For the year ended February 29, 2004 with comparative actual amounts for 2003**

	Original budget	Original and final budget	Actual	Variance with final budget	2003
<u>REVENUE</u>					
Michigan transportation fund	\$ 47,000	\$ 47,000	\$ 44,684	\$ (2,316)	\$ 42,242
Metro Act	-	-	1,604	1,604	-
Interest and dividends	50	50	11	(39)	14
TOTAL REVENUE	47,050	47,050	46,299	(751)	42,256
<u>EXPENDITURES</u>					
Street construction	-	-	598	(598)	-
Street preservation	28,359	28,359	36,486	(8,127)	35,741
Traffic services	500	500	427	73	-
Winter maintenance	12,500	12,500	10,118	2,382	13,962
Administration and engineering	4,900	4,900	4,396	504	5,040
TOTAL EXPENDITURES	46,259	46,259	52,025	(5,766)	54,743
<u>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</u>					
	791	791	(5,726)	5,015	(12,487)
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	15,000	15,000	17,000	2,000	20,000
Transfers out	(7,365)	(7,365)	(7,365)	-	(7,365)
TOTAL OTHER FINANCING SOURCES (USES)	7,635	7,635	9,635	2,000	12,635
NET CHANGE IN FUND BALANCES	8,426	8,426	3,909	14,650	148
Fund balance beginning of year	172	172	172	-	24
Fund balance end of year	\$ 8,598	\$ 8,598	\$ 4,081	\$ 14,650	\$ 172

Village of Howard City
Montcalm County, Michigan
Locally Raised Street Fund
Balance Sheet
February 29, 2004

	2004	2003
<u>ASSETS</u>		
Cash	\$ 12,229	\$ 9,173
TOTAL ASSETS	\$ 12,229	\$ 9,173
<u>LIABILITIES AND FUND BALANCES</u>		
<u>FUND BALANCES</u>		
Fund balance	\$ 12,229	9,173
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,229	\$ 9,173

Village of Howard City**Montcalm County, Michigan****Locally Raised Street Fund****Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual****For the year ended February 29, 2004 with comparative actual amounts for 2003**

	Original budget	Original and final budget	Actual	Variance with final budget	2003
<u>REVENUE</u>					
Taxes	\$ 61,000	\$ 61,000	\$ 61,201	\$ 201	\$ 56,168
Interest and dividends	200	200	82	(118)	210
TOTAL REVENUE	61,200	61,200	61,283	83	56,378
<u>EXPENDITURES</u>					
Street construction	16,000	16,000	14,702	1,298	28,931
Bridge construction	-	-	-	-	2,977
Street preservation	24,417	24,417	17,265	7,152	21,336
Administration and engineering	900	900	5,744	(4,844)	200
Street lighting	15,000	15,000	15,616	(616)	14,921
TOTAL EXPENDITURES	56,317	56,317	53,327	2,990	68,365
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,883	4,883	7,956	(2,907)	(11,987)
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers out	-	-	(4,900)	(4,900)	(5,000)
NET CHANGE IN FUND BALANCES	4,883	4,883	3,056	(7,807)	(16,987)
Fund balance beginning of year	9,173	9,173	9,173	-	26,160
Fund balance end of year	\$ 14,056	\$ 14,056	\$ 12,229	\$ (7,807)	\$ 9,173

Village of Howard City
Montcalm County, Michigan
Street Bond Debt Service Fund
Balance Sheet
February 29, 2004

	2004	2003
<u>ASSETS</u>		
Cash	\$ 9,334	\$ 9,915
TOTAL ASSETS	\$ 9,334	\$ 9,915
<u>LIABILITIES AND FUND BALANCES</u>		
<u>FUND BALANCES</u>		
Fund balance	\$ 9,334	9,915
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,334	\$ 9,915

Village of Howard City

Montcalm County, Michigan

Street Bond Debt Service Fund

Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual

For the year ended February 29, 2004 with comparative actual amounts for 2003

	2004	2003
REVENUE		
Interest and dividends	\$ 37	\$ 84
TOTAL REVENUE	37	84
EXPENDITURES		
Principal	12,000	11,000
Interest	3,051	3,626
Fees	300	300
TOTAL EXPENDITURES	15,351	14,926
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(15,314)	(14,842)
OTHER FINANCING SOURCES (USES)		
Transfers in	14,733	14,730
NET CHANGE IN FUND BALANCES	(581)	(112)
Fund balance beginning of year	9,915	10,027
Fund balance end of year	\$ 9,334	\$ 9,915

Village of Howard City
Montcalm County, Michigan
Revolving Fund
Balance Sheet
February 29, 2004

	2004	2003
<u>ASSETS</u>		
Cash	\$ 35,373	\$ 43,443
Due from other funds	2,744	-
TOTAL ASSETS	\$ 38,117	\$ 43,443
<u>LIABILITIES AND FUND BALANCES</u>		
<u>FUND BALANCES</u>		
Fund balance	\$ 38,117	43,443
TOTAL LIABILITIES AND FUND BALANCES	\$ 38,117	\$ 43,443

Village of Howard City

Montcalm County, Michigan

Revolving Fund

Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual

For the year ended February 29, 2004 with comparative actual amounts for 2003

	2004	2003
REVENUE		
Interest and dividends	\$ 100	\$ 1,313
TOTAL REVENUE	100	1,313
EXPENDITURES		
Audit	250	250
Attorney	524	-
Capital outlay	26,368	9,323
Principal	11,006	10,463
Interest	4,678	5,221
TOTAL EXPENDITURES	42,826	25,257
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(42,726)	(23,944)
OTHER FINANCING SOURCES (USES)		
Transfers in	37,400	56,507
Transfers out	-	(25,930)
TOTAL OTHER FINANCING SOURCES (USES)	37,400	30,577
NET CHANGE IN FUND BALANCES	(5,326)	6,633
Fund balance beginning of year	43,443	36,810
Fund balance end of year	\$ 38,117	\$ 43,443

Long-term Debt Schedules

Village of Howard City

Village of Howard City

Schedule of Bonded Debt

\$516,000 Sewer System Revenue Bonds, Series 1986

February 29, 2004

Year ended	Interest Rate	January 1 Principal	July 1 Interest	January 1 Interest	Total
2005	4.500%	\$ 21,000	\$ 1,418	\$ 1,418	\$ 23,836
2006	4.500%	21,000	945	945	22,890
2007	4.500%	21,000	473	473	21,946
Totals		\$ 63,000	\$ 2,836	\$ 2,836	\$ 68,672

Village of Howard City

Village of Howard City

Schedule of Bonded Debt

\$558,000 Sewer System Revenue Bonds, Series 1984

February 29, 2004

Year ended February 29,	Interest Rate	April 1 Principal	April 1 Interest	October 1 Interest	Total
2005	4.500%	\$ 8,000	\$ 11,984	\$ 11,767	\$ 31,751
2006	4.500%	8,000	11,767	11,587	31,354
2007	4.500%	8,000	11,587	11,407	30,994
2008	4.500%	9,000	11,407	11,205	31,612
2009	4.500%	9,000	11,205	11,003	31,208
2010	4.500%	10,000	11,003	10,777	31,780
2011	4.500%	10,000	10,777	10,553	31,330
2012	4.500%	11,000	10,553	10,305	31,858
2013	4.500%	11,000	10,305	10,057	31,362
2014	4.500%	12,000	10,057	9,788	31,845
2015	4.500%	12,000	9,788	9,517	31,305
2016	4.500%	13,000	9,517	9,225	31,742
2017	4.500%	14,000	9,225	8,910	32,135
2018	4.500%	14,000	8,910	8,595	31,505
2019	4.500%	15,000	8,595	8,258	31,853
2020	4.500%	16,000	8,258	7,897	32,155
2021	4.500%	16,000	7,897	7,538	31,435
2022	4.500%	18,000	7,538	7,132	32,670
2023	4.500%	18,000	7,132	6,728	31,860
2024	4.500%	19,000	6,728	6,300	32,028
2025	4.500%	20,000	6,300	5,850	32,150
2026	4.500%	21,000	5,850	5,377	32,227
2027	4.500%	22,000	5,377	4,883	32,260
2028	4.500%	23,000	4,883	4,365	32,248
2029	4.500%	25,000	4,365	3,802	33,167
2030	4.500%	25,000	3,802	3,240	32,042
2031	4.500%	27,000	3,240	2,633	32,873
2032	4.500%	28,000	2,633	2,002	32,635
2033	4.500%	30,000	2,002	1,328	33,330
2034	4.500%	31,000	1,328	630	32,958
2035	4.500%	28,000	630	-	28,630
Totals		\$ 531,000	\$ 234,643	\$ 222,659	\$ 988,302

Village of Howard City

Village of Howard City

Schedule of Bonded Debt

\$115,000 1997 Michigan Transportation Bonds

February 29, 2004

Year ended February 29,	Interest Rate	August 1 Principal	August 1 Interest	February 1 Interest	Total
2005	5.000%	\$ 12,000	\$ 1,376	\$ 1,075	\$ 14,451
2006	5.050%	13,000	1,075	747	14,822
2007	5.100%	14,000	747	390	15,137
2008	5.200%	15,000	390	-	15,390
Totals		\$ 54,000	\$ 3,588	\$ 2,212	\$ 59,800

Village of Howard City

Village of Howard City

Schedule of Bonded Debt

\$190,000 Water and Sewer System Revenue Bonds, Series 1997

February 29, 2004

Year ended February 29,	Interest Rate	August 1 Principal	August 1 Interest	February 1 Interest	Total
2005	5.150%	\$ 25,000	\$ 4,559	\$ 3,915	\$ 33,474
2006	5.150%	30,000	3,915	3,143	37,058
2007	5.200%	30,000	3,143	2,363	35,506
2008	5.200%	30,000	2,363	1,583	33,946
2009	5.250%	30,000	1,583	795	32,378
2010	5.300%	30,000	795	-	30,795
Totals		\$ 175,000	\$ 16,358	\$ 11,799	\$ 203,157

Village of Howard City

Village of Howard City

Schedule of Debt

\$120,000 Fire Truck Installment Purchase

February 29, 2004

Year ended February 29,	Interest Rate	Principal	Interest	Total
2005	5.190%	\$ 11,578	\$ 4,106	\$ 15,684
2006	5.190%	12,179	3,505	15,684
2007	5.190%	12,811	2,873	15,684
2008	5.190%	13,475	2,209	15,684
2009	5.190%	14,175	1,509	15,684
2010	5.190%	14,910	774	15,684
Totals		\$ 79,128	\$ 14,976	\$ 94,104

Village of Howard City

Village of Howard City

Schedule of Debt

\$67,100 Backhoe Installment Purchase

February 29, 2004

Year ended February 29,	Interest Rate	Principal	Interest	Total
2005	3.500%	\$ 12,719	\$ 1,929	\$ 14,648
2006	3.500%	13,171	1,477	14,648
2007	3.500%	13,640	1,008	14,648
2008	3.500%	14,125	523	14,648
2009	3.500%	3,879	74	3,953
Totals		\$ 57,534	\$ 5,011	\$ 62,545

AUDITORS' REPORTS

COMMUNICATION WITH AUDIT COMMITTEE OR ITS EQUIVALENT

To the Village Council
Village of Howard City
Montcalm County, Michigan

We have audited the general purpose financial statements of Village of Howard City, Montcalm County, Michigan for the year ended February 29, 2004, and have issued our report thereon dated July 2, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated June 28, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Village of Howard City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

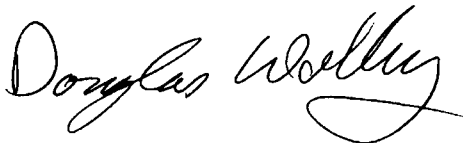
As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village of Howard City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Village of Howard City are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended February 29, 2004. We noted no transactions entered into by Village of Howard City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Village Village Council and management of Village of Howard City and is not intended to be and should not be used by anyone other than these specified parties.



Douglas Wohlberg, CPA
Byron Center, Michigan
July 2, 2004

MANAGEMENT COMMENTS LETTER

To the Village Council
Village of Howard City
Montcalm County, Michigan

In planning and performing our audit of the financial statements of Village of Howard City for the year ended February 29, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

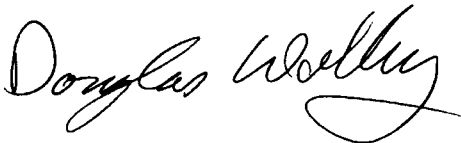
Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Village of Howard City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no material weaknesses.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended solely for the information and use of the Village Council, management, and others within the administration or the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the February 29, 2004 financial statements, and this report does not affect our report on those financial statements dated July 2, 2004. We have not considered the internal control since the date of our report.



Douglas Wohlberg, CPA
Byron Center, Michigan
July 2, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

To the Village Council
Village of Howard City
Montcalm County, Michigan

We have audited the general purpose financial statements of Village of Howard City, Montcalm County, Michigan as of and for the year ended February 29, 2004, and have issued our report thereon dated July 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

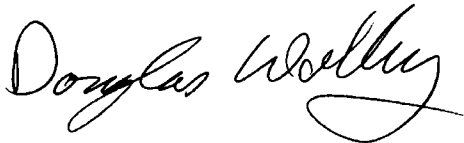
Compliance

As part of obtaining reasonable assurance about whether Village of Howard City's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Howard City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Douglas Wohlberg, CPA
Byron Center, Michigan
July 2, 2004